By DAVID I. GRUNFELD

IRA Retirement Plan Basics

The Outline of Your IRA's Who, What, When and Where

Individual Retirement Accounts (IRAs) are retirement accounts that, as the name suggests, are set up by an individual for their retirement. These should not be confused with 401(k)s which are retirement accounts set up by an employer. There are several different types of IRAs: Traditional IRAs, Roth IRAs, SEP IRAs and Simple IRAs.

Below are the basics of a traditional IRA during an account owner's lifetime:

1. Contributions:
    a. In 2014, an individual is permitted to deposit $5,500 ($6,500 if you are 50 or older) of pretax dollars into a traditional IRA. Once the funds are in the IRA then the individual is able to invest the funds just as he or she would invest a traditional investment account. All of the income earned during the life of the IRA is deferred until withdrawals are taken.
2. Distributions prior to age 59½:
    a. These are called "early withdrawals" and will most likely be subject to a 10 percent penalty. There are exceptions (subject to their own restrictions) to the early withdrawal penalties such as distributions for:
        i. first-time home purchases;
        ii. qualified education expenses;
        iii. death or disability;
        iv. unreimbursed medical expenses; or
        v. health insurance if you are unemployed.
    b. Even if an exception applies, an individual will still have to pay income taxes on the amounts distributed from a traditional IRA.
3. Distributions after age 59½, but prior to age 70½:
    a. There is no requirement to take any distributions after an individual turns 59½, but an individual may take distributions without penalty (qualified distributions), if they wish.
4. Age 70½
    a. An individual must begin taking distributions no later than April 1 following the year in which they turn 70½ (the Required Beginning Date). These distributions are based upon the owner's life expectancy and are called Required Minimum Distributions (or RMDs).

At the original owner's death, there are a number of different results depending on the named beneficiary, the original owner's age and the beneficiary's age. Below is an outline of the various scenarios.

1. Designating your spouse as the sole primary beneficiary:

a. Roll Over:
    i. The surviving spouse has the ability to roll over the IRA assets into his or her own IRA and treat the funds as their own.
b. Inherited IRA
    i. The surviving spouse could decide to keep separate accounts and hold the inherited IRA funds in an "inherited IRA account." Note that the inherited account has to be retitled to have "Inherited IRA" somewhere in the title. "Inherited IRAs" have the following characteristics:
        1. Surviving Spouse younger than 59½: Surviving spouse may take distributions without incurring the 10 percent penalty.
        2. Original Owner was younger than 70½:

There are many additional issues to consider both before and after the death of IRA holder. These include, but are not limited to, income taxes and lifestyle choices.

a. Surviving spouse can delay taking RMDs until the year the original owner would have turned 70½ even if the surviving spouse is older than 70½; or
   i. The RMDs would be based on the surviving spouse's life.
b. The surviving spouse can elect to withdraw the entire amount of the inherited IRA within five years of the original owner's death without penalty. This is called the "five-year rule."

3. Original Owner was older than 70½: Surviving spouse must take RMDs by Dec. 31 of the year following the original owner's death. The RMDs will be based on the surviving spouse's life expectancy.
4. The surviving spouse dies prior to receiving all of funds in the inherited IRA: The spouse can name his or her designated beneficiaries and the distributions will be based upon the life expectancy of those designated beneficiaries (this is different than if a non-spouse beneficiary was designated).

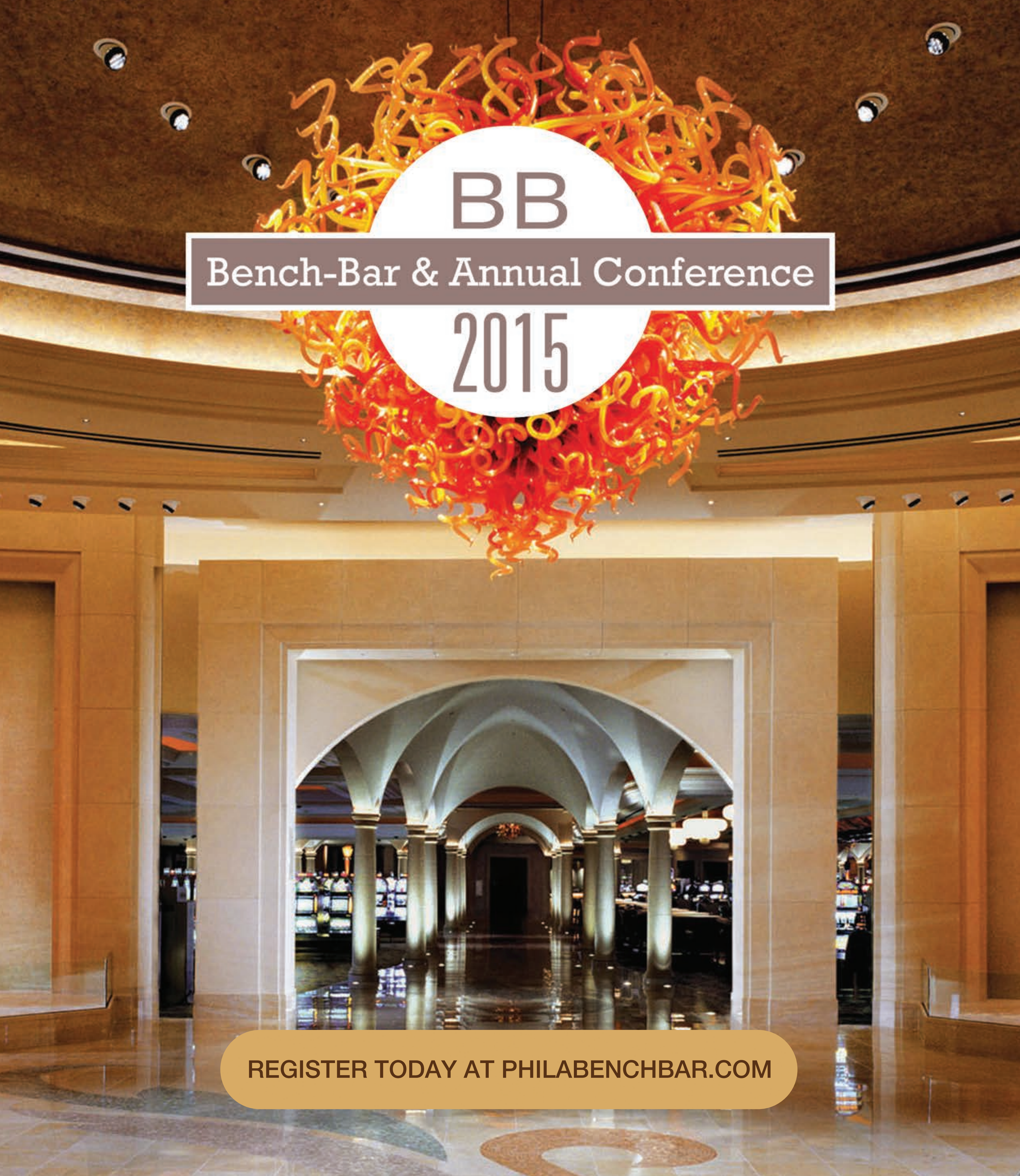
2. Designating a non-spouse as your beneficiary(ies):
   a. Non-spouse beneficiaries include: Individuals and certain qualified trusts.
      i. The inherited IRA must be held in a separate inherited IRA account:
         1. Original Owner was younger than 70½:
            a. Similar to a surviving spouse, a non-spouse beneficiary has the option to distribute the inherited IRA within five years of the original owner's death; or
            b. A non-spouse beneficiary must begin taking RMDs the year following the original owner's death. The RMDs will be based on the life expectancy of the non-spouse beneficiary.
         2. Original Owner was older than 70½: A non-spouse beneficiary must take RMDs by Dec. 31 of the year following the original owner's death. The non-spouse may elect to calculate the RMDs based on their life expectancy or the original owner's life expectancy.
   b. Multiple Beneficiaries: If there are multiple beneficiaries then it is important to split up the inherited IRA into multiple inherited IRA accounts. Otherwise, the RMDs will be based on the oldest beneficiary and not on the age of the beneficiary receiving the distributions.
   c. The designated beneficiary dies prior to receiving all of the funds in the inherited IRA: All distributions made to secondary beneficiaries (either outright or in trust) are based upon the remaining life expectancy of the now-deceased non-spouse beneficiary.

3. Not designating a beneficiary:
   a. Not designating a beneficiary: This includes naming the estate or naming a beneficiary that is no longer living.
      i. Original Owner was younger than 70½: The IRA must be distributed within five years of the original owner's death.
      ii. Original Owner was older than 70½: The IRA must be distributed using the original owner's life expectancy.

In all cases, if the original owner was old than 70½ at the time of death then the surviving beneficiaries must make sure to take the RMD for that year in which the individual died or the beneficiaries may incur a 50 percent penalty on the undistributed amounts. The RMD would be based on the original owner's life expectancy.

The above is just an overview of the complex rules that apply to IRAs. There are many additional issues to consider both before and after the death of IRA holder. These include, but are not limited to, income taxes and lifestyle choices. Therefore, it is always advisable to obtain experienced legal and tax advice before making any decisions regarding your IRA. ■

David I. Grunfeld (dgrunfeld@astorweiss.com), of counsel to Astor Weiss Kaplan & Mandel, LLP, is a member of the Editorial Board of The Philadelphia Lawyer.



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